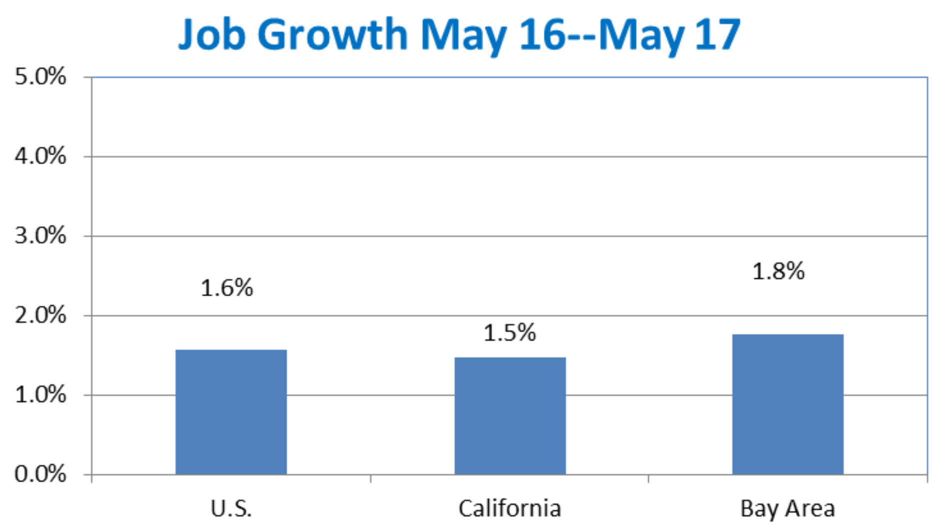
June 2017

The California Economy at Midyear

Job growth has slowed in California. In June 2017 state job growth for the past 12 months was slightly below the state average for the first time in several years. Part of this result is explained by sharply lower growth in the Bay Area in recent months but other parts of the state have slowed as well.

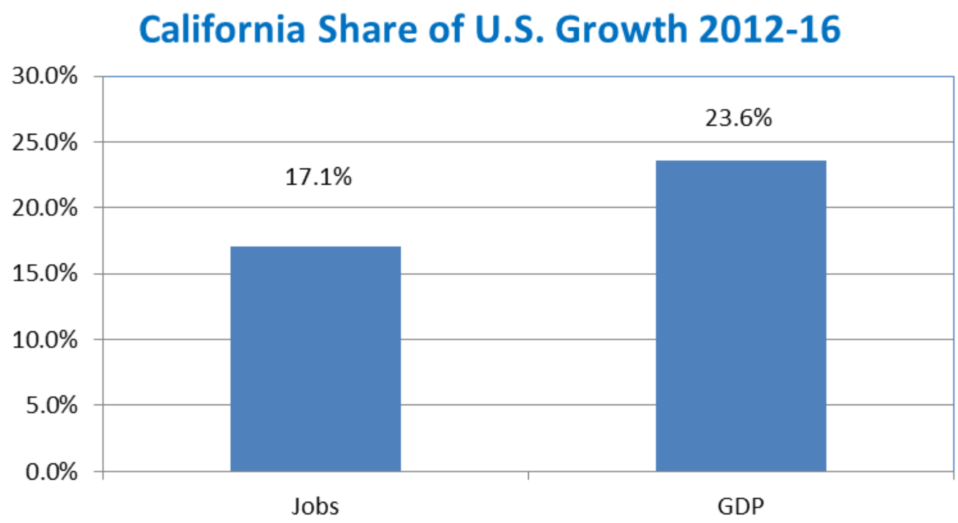


At the same time the unemployment rate fell to 4.7% in May 2017, the lowest since December 2000. In the past 12 months 100,000 residents have joined the workforce and there are more than 150,000 fewer unemployed residents (897,800 in May), the lowest since February 2007.

While job growth in the nation and state will slow in the coming years, it is too early to count these past few months as a sign of weakening in California.

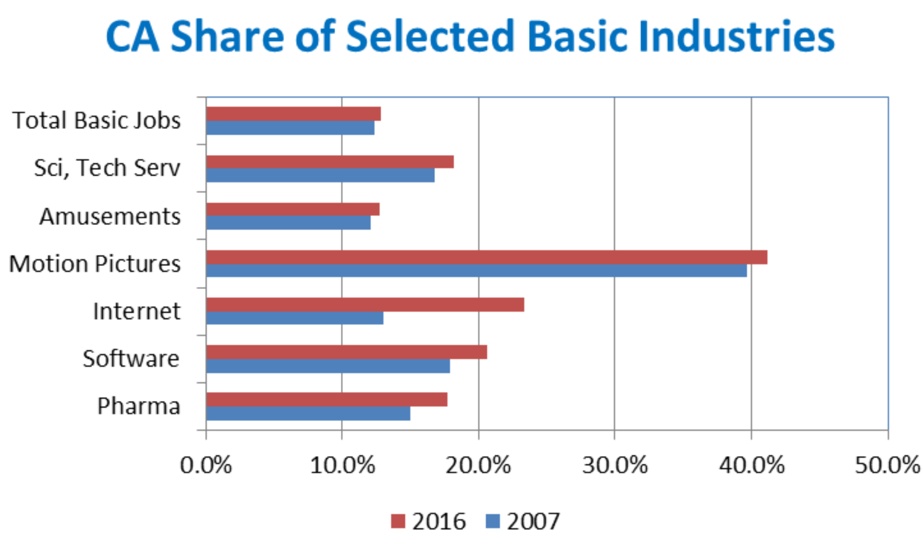
At this time it is helpful to revisit the very strong state economic performance since 2012, the reasons for this strength, and encouraging recent signs in the California economy.

The state accounted for 17.1% of U.S. job growth and 23.6% of national GDP growth between 2012 and 2016 while representing between 11% and 12% of national jobs and population. The Bay Area with 2.5% of U.S. jobs in 2012 accounted for 4.8% of national job growth but the rest of the state including Southern California also outpaced the nation in job growth.



A High and Rising Share of Fast Growth Sectors

The state has a high share of fast growing basic (export oriented) sectors and California increased its share of national jobs in many key sectors between 2007 and 2016. California has a favorable industry composition and geographical location (Pacific Rim) for both recent and future national growth.



In addition to these sectors, many of which are concentrated in the Bay Area, the state led by Southern California, saw strong job growth related to foreign trade and tourism.

These gains pushed the state's share of total U.S. jobs to 11.8% in 2016, a record, from 11.4% in 2012.

The state economic strength in the face of strict air quality regulations, high and rising housing costs and state and local tax increases, lend perspective to two national policy issues.

These trends have interesting implications for two national policy discussions. California's job growth was accompanied by improved air quality in the Bay Area and Southern California and by a decline in total and per capita GHG emissions. These gains were the result of regulations and changers in resident behavior accompanied by technological change that improve energy efficiency and miles per gallon for vehicles.

Thus the President's claim that regulations and the Paris agreement are job killers is refuted not only by this recent evidence but also by peer reviewed studies of the economic impact of state and Southern California air quality plans. I was one of many technical reviewers in both cases.

His claim is just wrong at the economy wide level although some individual sectors always shrink in big economic transitions.

At the same time the state is attracting company after company taking advantage of our labor force to innovate in a variety of clean tech endeavors.

While advocates sometimes overstate the immediate job potential of clean energy jobs, there is no question that the future belongs to the regions that can develop the next round of innovation in areas like battery technology, autonomous vehicles, transmission line efficiency, fuel efficiency and the like. When personal computers and word processing software were introduced, would you want your state to be a leader in personal computing or typewriter manufacturing?

These trends show that helping the environment is consistent with, and will be helped by in the long run, policies to promote energy efficiency and air quality.

The second policy implication deserves everyone's attention. Most Californians understand that restrictions on immigration and foreign trade will hurt our local economy as will reductions in federal support of basic science.

Now it is time to return to the opening statistics—17.1% of national job growth and 23.6% of national GDP growth.

What happens in California affects the national economy. We are one important center of innovation, connections with the Pacific Rim and a leader in entertainment and tourism. The state and national economies are connected and what hurts one hurts the other as well.

None of This Means California's Future is Assured

As many have noted, many dimensions of housing and transportation challenge our residents and economy.

But we face those challenges with an economy poised to succeed in the innovation and growth potential that national and world markets offer us if we approve policies to capture these opportunities.